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Inventory remains tight, slight slowdown in interest from Cal Poly students, but pre-leasing remains strong.

Inventory at both our offices remains scarce for immediate move-in. Our Arroyo Grande office is continuing to implement rent increases, generally at or near the maximum allowed by law for multi-family units, but turnover nevertheless remains historically low.

In the city of San Luis Obispo, the seasonality of that market lends itself to low inventory at this time of year, so that is not unusual, but our pre-leasing is progressing ahead of normal for the 2022-23 academic year. As with the Arroyo Grande office, we are seeing very little turnover in the Avila, Los Osos, Morro Bay, Atascadero, and Paso Robles communities that are managed from our San Luis Obispo office.

In April, we did see pre-leasing interest slow down quite a bit from where it was in February and March, but that can be attributed to Spring Break along with all the most popular rentals already being pre-leased earlier in the season. Regardless, things do continue moving along at a healthy pace. We just finished filling the first of our large buildings and are getting close on most other buildings.

For new construction and higher end single family homes, we have been testing the market at the $4,000 price point but without much success. We have had to lower those prices to the $3,500 - $3,800 price point before we started getting qualified applicants.

We have only one larger student building where pre-leasing is at a standstill but that is a price issue. The property owners have been testing the high end of the market ($2,800 for a two-bed, one-bath configuration) and we recently advised them to back off on their expectations, which they have done. The current rental market is not so strong that property owners can simply name a price. They still need to be competitive.

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The most challenging thing about the current market is figuring out where to price rentals. The market seems strong, and is certainly stronger than in recent years, but finding the correct price point is challenging at times. For multi-family renewals, it’s relatively easy because we simply raise rent by the maximum allowed by law (presently 9%) and call it a day. For everything else, it comes down to trial and error.

More water restrictions are likely on the horizon.

The problem of drought is one that we have been dealing with in California and on the Central Coast for quite some time now. It comes and goes, but even when it's gone we know it's only a matter of time before it returns.

Two recent headlines appearing in newspapers on literally the same day this past month read as follows:

> *Report urges California panel to deny desalination plant*
>
> *Millions face unprecedented order to conserve water in drought-stricken California*

While headlines of course fail to capture all the necessary particulars of why these separate decisions were made and what exactly they mean for California, the fact that these headlines appeared in the news on literally the same day was a good summary of what it sometimes feels like when managing properties in California. We have problems. We have solutions. But the solutions we have available to us cannot be implemented for whatever reason while nobody disputes the problems that truly do exist.

That said, and editorializing aside, the problem of drought is one that we have been dealing with in California and on the Central Coast for quite some time now. It comes and goes, but even when it's gone we know it's only a matter of time before it returns.

As a result of having been through multiple drought cycles, in our standard leases and rental agreements we require that residents must comply with all conservation requirements that may be imposed by cities or municipalities while still keeping their yards and landscaping adequately watered to avoid waste. In that regard, we sometimes feel just as ridiculous as a newspaper headline writer.

Maintenance labor remains difficult to recruit.

We have been staffing up for the upcoming turn season in San Luis Obispo and the labor market for skilled maintenance workers remains tight. We are offering starting wages of $25.00 per hour and still are having trouble filling our available positions. We have been far more successful in recruiting office staff talent at lower starting wages. It is typical for maintenance workers to earn more than entry level office staff but the relative unavailability of maintenance workers is unusual.

The difference may have to do with the extraordinary number of development projects currently under construction in San Luis Obispo, which is likely causing a short supply of maintenance workers.

San Luis Obispo Office
1380 Broad Street
San Luis Obispo, CA 93401
Ph: (805) 543-9119
E-mail: slo@calwest.com

Arroyo Grande Office
145 S. Halcyon #H
Arroyo Grande, CA 93420
Ph: (805) 489-9400
E-mail: ag@calwest.com

www.california-west.com

Broker: Derek Banducci
DRE Lic. No. 01276163